

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF
REPRESENTATIVES

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

JOINT LEGISLATIVE BUDGET COMMITTEE

Thursday, June 20, 2002

9:30 a.m.

Senate Appropriations Room 109

AGENDA

- Call to Order
- [Approval of Minutes of May 7, 2002.](#)
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION
 - A. Arizona Department of Administration - Review for Committee the Planned Contribution Strategy for State Employee Health Plans as required under A.R.S. § 38-658A.
 - B. Department of Revenue - Consider Approval of Ladewig Expenditure Plan.*
- 1. [DEPARTMENT OF REVENUE - Consider Approval of Ladewig Expenditure Plan.*](#)
- 2. [ARIZONA LOTTERY COMMISSION - Consider Approval of Revisions to Retailer Incentive Plan.](#)
- 3. [ARIZONA PIONEERS' HOME - Consider Approval of Requested Transfer of Appropriations.](#)
- 4. [AHCCCS - Review of Capitation Rates.](#)
- 5. DEPARTMENT OF HEALTH SERVICES
 - A. [Review of FY 2003 Expenditure Plan for Arnold v. Sarn Special Line Item.](#)
 - B. [Review of Children's Rehabilitative Services Capitation Rate Changes.](#)

* Committee may need an Executive Session on this item to respond to questions on pending litigation as required under A.R.S. § 38-431.03.

(Continued)

6. DEPARTMENT OF ECONOMIC SECURITY
 - A. Review of Long Term Care Expenditure Plan.
 - B. Review of Proposed Transfer from Developmental Disabilities Programs to Children Services.
 - C. Report on Proposed Use of TANF Cash Benefits Expenditure Authority.
 - D. Update on Domestic Violence Baseline Cost-Effectiveness Measures.
7. ARIZONA STATE RETIREMENT SYSTEM - Review of FY 2003 Information Technology Expenditure Plan.
8. ARIZONA DEPARTMENT OF ADMINISTRATION/GOVERNMENT INFORMATION TECHNOLOGY AGENCY
 - A. Report on HRMS Replacement Project.
 - B. Report on HRMS Replacement Project Agency Budget Savings.
9. ARIZONA DEPARTMENT OF TRANSPORTATION - Report on Grand Canyon Airport Funding.
10. REPORT ON RECENT AGENCY SUBMISSIONS
 - A. Arizona State Schools for the Deaf and the Blind - Report on Intended Use of Classification Salary Adjustment Monies.
 - B. Department of Emergency and Military Affairs - Report on Declared Emergencies.

The Chairman reserves the right to set the order of the agenda.
6/13/02

People with disabilities may request accommodations such as interpreters, alternative formats, or assistance with physical accessibility. Requests for accommodations must be made with 72 hours prior notice. If you require accommodations, please contact the JLBC Office at (602) 542-5491.

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF
REPRESENTATIVES

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

May 7, 2002

The Chairman called the meeting to order at 9:40 a.m., Tuesday, May 7, 2002, in Senate Appropriations Room 109. The following were present:

Members:	Senator Solomon, Chairman Senator Arzberger Senator Bee Senator Bennett Senator Brown Senator Cirillo Senator Rios	Representative Knaperek, Vice-Chairman Representative Burton Cahill Representative Gray Representative May Representative Pickens Representative Weason
Absent:	Senator Bundgaard	Representative Allen Representative Pearce
Staff:	Richard Stavneak, Director Kim Hohman Stefan Shepherd	Cheryl Kestner, Secretary Beth Kohler
Others:	Cynthia Odom Kathy Wieneke Frank Hinds Bruce Liggett	Attorney General's Office Outside Counsel for the Attorney General Risk Management, ADOA Deputy Director, DES

APPROVAL OF MINUTES

Senator Solomon moved that the minutes of February 28, 2002 be approved. The motion carried.

EXECUTIVE SESSION

Senator Bee moved that the Committee go into Executive Session. The motion carried.

At 9:44 a.m. the Joint Legislative Budget Committee went into Executive Session.

Senator Bee moved that the Committee reconvene into open session. The motion carried.

At 10:10 a.m. the Committee reconvened into open session.

Senator Bee moved that the Committee approve the recommended settlement proposals by the Attorney General's Office in the following cases:

1. Dresser/Estell v. State
2. Landis v. State

The motion carried.

DEPARTMENT OF HEALTH SERVICES (DHS) – Consider Approval of Transfer of Appropriations.

Ms. Beth Kohler, JLBC Staff, stated that this item is a request to transfer monies between Special Line Items in the Behavioral Health Services budget. In the 2nd Special Session the appropriation for Non-Title XIX Mental Health Services was reduced from about \$9.9 million to about \$900,000 due to expected savings as a result of Proposition 204 expansion. However, DHS has spent about \$4 million in this line leaving a shortfall in the program. They have requested to transfer monies from the Seriously Mentally Ill Non-Title XIX Special Line Item and the Substance Abuse Non-Title XIX Special Line Item to the Mental Health Non-Title XIX Special Line Item.

Senator Solomon stated that she presumed those transfers will not affect the other 2 programs. Ms. Kohler said that that is what the Department has indicated.

Senator Bennett asked what the proportion is of the 2 accounts that they are transferring from. Ms. Kohler said she did not have that figure at hand, but that it was a reasonably small percentage.

Representative Knaperek moved that the JLBC Staff recommendation be approved by the Committee for the Department of Health Services' request to transfer \$3,481,300 (\$2,462,700 from Seriously Mentally Ill Non-Title XIX and \$1,018,600 from Substance Abuse Non-Title XIX) to Mental Health Non-Title XIX. The motion carried.

DEPARTMENT OF ECONOMIC SECURITY (DES)

A. Determine Arizona Works Caseload Reduction Savings.

Mr. Stefan Shepherd, JLBC Staff, said this item requires the Committee to approve a calculation of cash benefit savings due to caseload reductions in the Arizona Works Program for CY 2001. Under the proposed methodology, which the Committee has used in past years, the Arizona Works vendor has generated about \$1 million in caseload reduction savings. Statute permits the vendor to receive up to 25% of those savings or about \$270,000, and as a point of comparison, the Arizona Works vendor earned a total of 2% of the \$727,600 available last year.

Senator Solomon asked if Mr. Shepherd had an estimate of what he expects the performance based incentive to be for this year. Mr. Shepherd responded that he did not have an estimate, however, the vendor performance has not been significantly different this year than last year.

Senator Cirillo stated that there seems to be a lot of controversy over the methodology used for calculating this savings. He asked where this method came from originally. Mr. Shepherd said that this was originally proposed by JLBC Staff. The legislation establishing the Arizona Works Program is fairly vague on what caseload reductions means. The JLBC Staff recommended the methodology based on discussions with the bill's original sponsors back in 1997. He said that this method has been used for 3 years; it would be reasonable from that perspective. The Committee could change the methodology if it wanted to, however.

Representative Knaperek moved the JLBC Staff recommendation for approval of the calculation of cash benefit savings attributable to caseload reduction achieved by the Arizona Works pilot welfare program for calendar year 2001. The motion carried.

B. Determine Arizona Works Administrative Baseline Costs for Greenlee County.

Mr. Shepherd said that this item requires the Committee to determine the Administrative Baseline costs for the Arizona Works Program in Greenlee County. This is the 2nd rural phase of the Arizona Works Program. The Committee had previously approved a baseline for Mohave County. Subsequent to Committee approval of that baseline, the Arizona Works Procurement Board decided to not expand into Mohave County but rather to Greenlee County. The methodology behind the JLBC Staff recommendation of the Administrative Baseline costs totaling \$189,500 duplicates the methodology used for Mohave County and the original District-1 East pilot site.

Senator Cirillo asked if this is being forced on Greenlee County or has the Board of Supervisors acquiesced to this.

Mr. Bruce Liggett, Deputy Director, DES, said that the Procurement Board made the decision to select the County and the County did not have a choice in this matter. The County was provided the opportunity to come and testify before the Board but chose not to. Mr. Liggett spoke to the County Manager of Greenlee County and they acquiesced.

Senator Arzberger asked how many people are served by Arizona Works in Greenlee County. Mr. Liggett responded that about 75 cases are served in Greenlee County.

In response to Senator Arzberger's question, Mr. Shepherd said that the MAXIMUS contract was set up for the total cost of administering all 3 programs. It is not that they are being paid on all 3 programs to administer 1 program but a component of their payment is based on the total cost of administering all 3 programs.

Representative Knaperek moved the JLBC Staff recommendation for approval of the JLBC Staff estimate of the total direct and indirect costs of administering the EMPOWER Redesign welfare program in Greenlee County for all of FY 2002. The motion carried.

C. Review of Request to Expend FY 2003 Children Services Allocation in FY 2002.

Mr. Shepherd said this item is a request from DES to spend about \$6.5 million of TANF monies transferred to the Social Services Block Grant that were allocated for use in FY 2003 but were permitted to be used in FY 2002 in the Children Services Program. The JLBC Staff is recommending a favorable review.

Representative Pickens asked where the \$6.5 million is coming from. Mr. Shepherd said that it is TANF monies that are appropriated in the TANF Deposit to SSBG line item in DES's budget for FY 2002 but a footnote actually allocated those monies for use in FY 2003. The footnote also permits DES to spend those monies in FY 2002. Mr. Shepherd said that they plan to use all of those monies.

Senator Bennett asked if Mr. Shepherd could estimate what the appropriation from the TANF Block Grant in FY 2003 will be. Mr. Shepherd said that the line item for FY 2002 is \$32 million and under the Chairmans' current plan the number would be about \$36 million in FY 2003.

Representative Knaperek moved that the Committee give a favorable review to the JLBC Staff recommendation to spend in FY 2002 a total \$6,471,000 of TANF Block Grant monies transferred to SSBG and allocated for use to the Children Services program in FY 2003. The motion carried.

OFFICE OF THE ATTORNEY GENERAL (AG) – Review Allocation of Settlement Monies.

Ms. Kim Hohman, JLBC Staff, said this item is a review of the Attorney General's allocation plan for 4 recent settlement agreements.

Representative Knaperek moved that the Committee give a favorable review to the allocation plan by the Attorney General's Office for each of the settlement agreements. They include: 1) Bridgestone/Firestone, 2) First Alliance Mortgage Company (FAMCO), 3) TNI Partners (Tucson Newspapers, Inc.), and 4) Vitamin Settlement (Richardson v. Hoffman-LaRoche, Ltd.). The motion carried.

REPORT ON RECENT AGENCY SUBMISSIONS

These are the recent reports received in the last month and no Committee action was required.

- A. Attorney General - Report on Model Court.**
- B. Boxing Commission - Report on Boxing Events and Revenue.**
- C. Arizona Criminal Justice Commission - Report on State Aid to County Attorneys Fund and the State Aid to Indigent Defense Fund.**
- D. Department of Economic Security - Bimonthly Report on Arizona Works.**
- E. Department of Economic Security - Bimonthly Report on Children Services Program.**
- F. Department of Emergency and Military Affairs - Report on Declared Emergencies.**
- G. Government Information Technology Agency/Arizona Department of Administration - Report on Statewide Technology License Agreement Account Expenditures.**
- H. Department of Health Services - Report on 317 Vaccines Program.**

- I. Arizona State Retirement System - Semi-Annual Report on Information Technology Expenditures and Project Tasks.**
- J. Supreme Court - Report on Criminal Case Processing and Enforcement Improvement Fund and the State Aid to the Courts Fund.**

Without objection, the meeting adjourned at 10:25 a.m.

Respectfully submitted:

Cheryl Kestner, Secretary

Richard Stavneak, Director

Senator Ruth Solomon, Chairman

NOTE: A full tape recording of this meeting is available at the JLBC Staff Office, 1716 West Adams.

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF
REPRESENTATIVES

LAURA KNAPERK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: June 13, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: DEPARTMENT OF REVENUE – CONSIDER APPROVAL OF LADEWIG
EXPENDITURE PLAN

Request

The Arizona Department of Revenue (DOR) requests that the Committee approve their expenditure plan for Ladewig administration costs for the first quarter of FY 2003. DOR originally requested \$1,414,000, but has now revised its estimate to \$1,196,700.

Recommendation

The JLBC Staff recommends that the Committee approve \$866,400 for DOR's 3-month interim expenditure plan. Any monies remaining unspent from the \$866,400 at the end of the first quarter would be available for the remainder of DOR's full year expenditure plan. If DOR needs more than \$866,400 for the first quarter, the department can submit an amended request and update their project status at a future monthly Committee meeting if necessary.

The JLBC Staff further recommends that these Personal Services monies (including overtime) only be spent on staff directly working on Ladewig, and that the next expenditure plan should include an accounting of expenditures to date, in addition to an estimate and scope of the entire administrative requirement associated with disbursing payments and costs for this case, as required by Laws 2002, Chapter 321.

Analysis

Laws 2002, Chapter 321 allocates \$75,000,000 in FY 2003 for the purposes of covering the first year settlement payments and costs of the case of Ladewig v. State of Arizona. DOR may use up to \$15,000,000 of this \$75,000,000 for administration and review of payments. Additional settlement and administrative funding may be required in future years. DOR is required to present an expenditure plan for Committee approval that includes an estimate and scope of the entire administrative requirement associated with disbursing payments and costs for this case, before the expenditure of up to \$15,000,000 for administrative expenses.

(Continued)

DOR's submission indicates that many of the settlement parameters have yet to be decided by the tax court, the determination of which will impact how the department needs to process claims. For instance, DOR reports that the judge has yet to determine the respective roles of the taxpayer and the department in establishing the entitlement of a particular taxpayer to a refund and the amount of that refund. In any event, DOR will have to address issues concerning the retrieval and analysis of old taxpayer data from tax years 1986-1989. DOR reports that these tasks will be time consuming and labor intensive.

Although certain issues still need to be resolved, the department will be required to begin the process by sending notices to 600,000 class members in late June and early July 2002, and begin processing claims as settlement parameters are clarified. DOR has submitted an expenditure plan for the first quarter of FY 2003, to cover the mailing of 600,000 notices and begin processing claims. DOR will then return for Committee approval of their expenditure plan for the rest of FY 2003.

The following table summarizes DOR's interim expenditure plan and the JLBC Staff recommendation.

DOR's Expenditure Plan For The First Quarter Of FY 2003

Category	DOR's Estimated Expenditures	JLBC Recommendation
FTE Positions	4	4
Personal Services	\$238,300	\$238,300
Employee Related Expenditures	46,600	46,600
Professional & Outside Services	123,600	123,600
Travel	16,900	0*
Other Operating Expenditures		
Postage and Post Office Box Rental	357,900	357,900
Newspaper Ads	30,000	30,000
Printing	25,000	25,000
Consumable Supplies	75,000	0*
Other	0	25,000
Equipment	83,400	20,000
Contingency	<u>200,000</u>	<u>0*</u>
Total	\$1,196,700	\$866,400

* Fund from "Other" \$25,000 line

The total recommended for Personal Services of \$238,300 includes, \$42,500 for 4 FTE Positions to coordinate, plan, track, and manage the project, \$87,800 for 30 employees with each working 15 hours of overtime/week for 13 weeks, and \$108,000 for 15 employees temporarily assigned to the project for the last 9 weeks of the quarter.

These figures are DOR's best estimates. They are not based on detailed work plans for the project. DOR expects to backfill for current employees temporarily assigned to the project, either by using overtime or by hiring other employees. From our perspective, the request may be overstated if staff is not immediately assigned to the project at the beginning of July. If delays occur, that money should remain available to fund subsequent quarters of work.

The total recommended for Professional and Outside Services of \$123,600 is for temporary personnel and includes, \$45,600 for people to staff phones, and to open and sort mail for 9 weeks at the start of the project, and \$78,000 for 10 audit clerks for 13 weeks.

The total recommended for Other Operating Expenditures of \$412,900 includes, DOR's estimates of \$357,000 for postage, \$30,000 for newspaper ads, \$900 for post office box rental, and \$25,000 for printing. The \$25,000 for printing is based on DOR's undocumented estimate.

(Continued)

The recommended \$25,000 for Other includes both Travel and consumable supplies. DOR requested \$16,900 for Travel to cover training, and project coordination and supervision, which seems high. DOR based their estimate on trips between Phoenix and Tucson. DOR requested \$75,000 for consumable supplies under Other Operating Expenditures, but is still working on a more detailed breakdown to justify that dollar amount.

The total recommended for Equipment is \$20,000 for a heavy duty personal computer workstation. DOR's request of \$83,400 for Equipment includes this \$20,000, plus \$63,400 for 4 laptop computers for permanent staff, 10 desktop personal computers for temporary staff, and other computer equipment such as printers. JLBC Staff believes that DOR should have sufficient personal computers and laptops available from other vacant FTE Positions in the department. JLBC Staff also believes that DOR should not buy such equipment for temporary staff.

No extra money is specifically recommended for contingencies, since the Committee meets monthly and DOR can update their project status monthly if necessary.

RS/BH:jb

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF
REPRESENTATIVES

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: June 12, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Tom Mikesell, Fiscal Analyst

SUBJECT: ARIZONA LOTTERY COMMISSION — CONSIDER APPROVAL OF
REVISIONS TO RETAILER INCENTIVE PLAN

Request

Pursuant to Laws 1997, Chapter 214, the Arizona Lottery Commission requests Committee approval of revisions to the Retailer Incentive Plan. The current plan allows for an additional 0.5% of Lottery ticket sales to be distributed to retailers if specified sales and promotional measures are met. This is a follow-up to a request by the Lottery to revise the plan at the Committee's August 2001 meeting. At that meeting, the Committee requested that the Lottery revise the plan to include a measure of comparative performance between retailers. The Lottery is submitting its revised plan based on this request. The revised plan awards incentives for sales growth that is greater than or equal to total Lottery sales performance.

Recommendation

The Lottery's proposal appears to satisfy the comparative requirement requested by the Committee last August. This plan, however, would permit incentive payments to retailers with "average" performance. A retailer can receive an incentive payment if the percentage growth in sales matches the overall Lottery performance. As a result, the JLBC Staff favors setting the growth goal above the average rate. For example, incentive payments could be limited to retailers with Lottery sales growth 5% greater than the average. Under this alternative proposal, 38% of retailers would qualify compared to 46% with the Lottery's plan.

(Continued)

Analysis

Laws 1997, Chapter 214 increased the percentage of total ticket sales that the Lottery could return to retailers from 6% to 7%. However, the legislation required that half of this increase be based on a plan approved by the Joint Legislative Budget Committee. The law required that the plan be designed to maximize revenues received from Lottery ticket sales. The current plan, approved by the Committee in January of 2000, allows for an additional 0.5% of ticket sales to be distributed to retailers who increase their sales by at least 5%. In addition, the plan requires retailer participation in various promotional activities, and requires display of certain advertising materials in order to receive the additional 0.5% commission. In August of 2001, the Lottery proposed a revised plan that deleted the promotional activities and advertising material requirements and based the incentive entirely on a 5% sales increase. In its review of the issue, the Committee did not approve the revised plan and instead directed the Lottery to develop a plan that included a comparative element. This comparative element would serve to protect against sales increases attributable to factors outside retailers' control, such as large Powerball jackpots.

Since August of 2001, the Lottery has retained the current retailer incentive plan and developed 6 alternatives for review by its Lottery Commission. A comparison of the current and alternate proposals, including the percent of retailers that would have qualified for incentives under each proposal, and the total incentive that would have been paid for the January 2001 to June 2001 period are shown in the following table. Row 1 shows the Lottery's current plan and the row 2 shows their proposed plan for approval by the Committee.

<u>Description of Plan</u>	<u>% of Retailers Qualifying</u>	<u>Incentive Paid</u> ^{1/}
<u>Existing Plan</u>		
1) Sales growth of 5% plus 5 point of sales materials and promotional activities.	52.2%	\$492,048
<u>Lottery's Current Proposal</u>		
2) Meet or exceed total sales growth (at least 5% if no growth in total sales.)	46.1%	\$422,985
<u>Alternate Proposals to Lottery Commission</u>		
3) Total sales growth of 10%.	44.2%	\$406,831
4) Weighted incentive payment: 0.2% incentive for on-line sales growth that is 5% or higher; 0.3% incentive for instant ticket sales growth that is 5% or higher.	53.8%	\$236,959
5) Instant tickets sales growth of 5%.	54.5%	\$271,674
6) Instant ticket sales growth of 10%.	48.9%	\$241,797
7) Exceed total sales growth by at least 5%.	37.7%	\$339,613

^{1/} Incentive that would have been paid for January 2001 to June 2001 period if plan had been in effect.

As shown in the table, the different plans included options to raise the overall sales growth threshold, reduce or eliminate on-line sales from sales growth calculations, and to base incentives on growth in comparison to overall sales performance.

(Continued)

While any of these options would provide some measure of protection against sales increases driven by large Powerball jackpots, only options 2 and 7 provide a clear comparative measure. Of these two options, the Lottery Commission endorsed option 2, which would award the incentives based on sales performance that met or exceeded total Lottery sales growth. This option would have provided \$422,985 in incentive payments to 6.1% fewer retailers than the current plan during the period from January 2001 to June 2001. The other option would base the incentive on growth 5% better than total sales growth. This option would have provided \$339,613 in incentive payments to 14.3% fewer retailers than under the current plan.

Either of these two options addresses the Committee's desire for the plan to have a comparative element, however they differ in the stringency of the performance benchmark. As shown above, a higher performance threshold based on 5% growth above total sales growth will result in fewer retailers qualifying for the incentive and a lower total incentive payment. The JLBC Staff recommends this alternate proposal. However, we acknowledge that the Lottery's proposed plan satisfies the Committee's request for a retailer incentive plan based on comparative retailer performance should the Committee desire a less stringent retailer sales performance threshold.

RS/TM:ck

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF
REPRESENTATIVES

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: June 11, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Fiscal Analyst

SUBJECT: ARIZONA PIONEERS' HOME – CONSIDER APPROVAL OF REQUESTED
TRANSFER OF APPROPRIATIONS

Request

Pursuant to A.R.S. § 35-173(E), the Arizona Pioneers' Home requests Committee approval to transfer appropriations in FY 2002 from Equipment to Personal Services and Employee Related Expenditures (ERE). Specifically, the Pioneers' Home requests to transfer \$101,607 as shown below:

<u>TRANSFER FROM:</u>		<u>TRANSFER TO:</u>	
Equipment	\$101,607	Personal Services	\$51,175
		Employee Related Expenditures	<u>50,432</u>
TOTAL	<u>\$101,607</u>	TOTAL	<u>\$101,607</u>

Recommendation

The JLBC Staff recommends that the Committee approve the agency request.

Analysis

A.R.S. § 35-173(E) requires Committee approval of any transfer to or from Personal Services or ERE if those line items are separately delineated for an agency in the General Appropriation Act. The Pioneers' Home FY 2002 appropriation includes Personal Services and ERE as separate line items. Thus, the Pioneers' Home is requesting Committee approval of a transfer from the Equipment line item to both the Personal Services and ERE line items.

The Pioneers' Home has had difficulty hiring nurses and nursing assistants and therefore has used more seasonal employees and overtime for existing employees, resulting in higher Personal Services and ERE expenditures. Furthermore, the Home paid over \$42,000 for on-call pay as a result of *Schofield, et al. v. State of Arizona*, which concerned on-call pay for state employees

As a result, the Pioneers' Home is facing a shortfall in its Personal Services and ERE line items. The Home proposes transferring \$101,607 from the Equipment line item to cover the shortfall. The JLBC Staff recommends the Committee approve the requested transfer.

RS/BK:ck

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF
REPRESENTATIVES

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: June 11, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gretchen Logan, Senior Fiscal Analyst

SUBJECT: ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM – REVIEW OF
CAPITATION RATES

Request

Pursuant to General Appropriation Act footnotes in Acute and Long-Term Care, the Arizona Health Care Cost Containment System (AHCCCS) is required to report capitation rate changes to the Committee for its review prior to implementation.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to the capitation rate changes. Most of the capitation rates have declined. The JLBC was informed of these changes prior to their implementation and the associated savings have been incorporated into the agencies' FY 2002 and FY 2003 budgets. Additional costs associated with the increases in the Arizona Long-Term Care System (ALTCS) and Comprehensive Medical and Dental Program (CMDP) capitation rates can currently be absorbed within the existing program budgets.

Analysis

Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound. The adjustments proposed by AHCCCS are based on actuarial analyses. An actuarial analysis is based on a variety of assumptions, which usually include some range of outcomes. AHCCCS contracts with an actuarial firm, which uses claims, expenditure, and encounter data to determine the actual cost of services and thereby, recommends increases or decreases in capitation rates.

As mentioned above, footnotes in the General Appropriation Act require AHCCCS to submit capitation rate changes that have a budgetary impact to the Committee for review prior to the implementation of the increases. In the past, capitation rate changes were implemented without notification of the Legislature. The footnotes were added so that legislators would be made aware of these changes and the potential budget impacts before the new rates are implemented.

Title XIX Waiver Group Rate Decrease

AHCCCS has two sets of capitation rates for all eligibility groups in Acute Care and the Title XIX Waiver Group (Proposition 204 expansion). The first set of rates covers the period prior to enrollment in a health plan. This is called “prior period coverage” (PPC) and includes some amount of retroactivity coverage depending on eligibility. The second set of rates, referred to as “regular” capitation, take effect after enrollment in the health plan.

This capitation rate reduction only applies to the Proposition 204 enrollees that are childless adults — referred to as the Prop 204 non-categoricals. When setting this rate initially, the actuaries developed a set of enrollment and cost assumptions based on the best data available. However, due to higher than expected enrollment, the actuaries performed a mid-year review and incorporated actual enrollment experience into their models. This resulted in an April 1 downward adjustment of 26% in the PPC rate (from \$232.32 to \$172.86) and a 42% reduction in the regular capitation rate (from \$357.29 to \$206.79) for the non-categorical population. These rates reflect the average rate paid per member per month to the health plan.

The savings associated with this adjustment have been incorporated into the current estimate for the Proposition 204 population. The actual savings associated with this downward adjustment may be higher or lower, depending upon the actual number of people that are eligible for services.

Arizona Long Term Care System (ALTCS)

ALTCS services are provided through a system of 8 program contractors who competitively bid to provide long-term care services to eligible individuals. In all counties, except Maricopa, there is one program contractor that is responsible for coordinating and managing all of the clients’ long-term and acute care needs. In Maricopa County there are 3 program contractors, and therefore, Maricopa residents are given an enrollment choice.

In response to the November 1999 recommendations of the Long Term Care Regulator Subcommittee, AHCCCS implemented a Uniform Assessment Tool (UAT) to ensure a more consistent assignment of acuity levels among contractors.

AHCCCS reports that the costs associated with the UAT in FY 2002 can be absorbed within the current budget. In addition, the agency reports that the average capitation rate of \$2,458 is required to fund the costs associated with the UAT in FY 2003. Currently, it appears that the FY 2003 budgeted rate can absorb the increase in costs associated with the UAT; however, JLBC Staff will continue to monitor the specific cost components of the ALTCS rate during FY 2003.

CMDP Rate Increase

The Comprehensive Medical and Dental Program (CMDP) serves children in the foster care system. AHCCCS recommends a 28% increase to the CMDP capitation rate retroactive to October 1, 2001. This increase does not require additional funding, and instead, will result in

state savings. The savings are due to the fact that *prior to the current adjustment* the rate was below actual costs, which resulted in annual CMDP losses of approximately \$2,000,000 per year. This cost overrun was funded with 100% state funds. With the recommended 28% increase, the CMDP rate will more accurately reflect actual costs, additional federal dollars will be drawn down, and the 100% state funded subsidy should not be required.

Department of Health Services (DHS)/Behavioral Health Services (BHS) Rate Decrease

In November 1998, the Children's Health Insurance Program (CHIP), or Title XXI, program was implemented. This program provides health insurance coverage to children up to 200% of the federal poverty level (FPL). Children enrolled in the CHIP program receive behavioral health services through the Regional Behavioral Health Authorities (RBHA's), who are paid a monthly capitation rate based on CHIP enrollment.

Because CHIP is relatively new, the most recent actuarial analysis of the CHIP behavioral health rate was the first to include a full set of encounter data. This analysis resulted in a recommended decrease of 14% in the CHIP behavioral health rate.

The savings associated with this adjustment retroactive to July 1, 2001, have been incorporated into the current estimate for the CHIP population.

In sum, the various changes to the AHCCCS Proposition 204, ALTCS, CMDP and CHIP capitation rates are based on actuarial analysis, which is a requirement for participation in the Title XIX program. In addition to these capitation rates changes, AHCCCS has also recommended a decrease to the Department of Economic Security (DES)/Developmental Disabilities (DD) capitation rate, which is addressed in a separate agenda item. The General Appropriation Act footnotes were added to increase legislative awareness of these changes and their potential budget impacts. As noted, the savings associated with these changes have been incorporated into the current FY 2002 and FY 2003 revised budgets. In the case of the capitation rate increases in ALTCS and CMDP, program these increases can be absorbed within the current FY 2002 budget. If current enrollment trends continue, it is likely that the increased costs in FY 2003 can be absorbed within budgeted amounts.

RS/GL:ck

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF
REPRESENTATIVES

LAURA KNAPERREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: June 12, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES - REVIEW OF FY 2003 EXPENDITURE
PLAN FOR ARNOLD v. SARN SPECIAL LINE ITEM

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) must present an expenditure plan to the Committee for its review prior to expending any funding for the Arnold v. Sarn Special Line Item in Behavioral Health. DHS is requesting review of its FY 2003 expenditure plan for this line item.

Recommendation

The JLBC Staff recommends a favorable review of the request as the plan appears technically consistent with legislative intent for the Arnold v. Sarn line item. Members, however, may wish to review the proposed distribution on page 2 to ensure that it meets their policy concerns.

Analysis

The FY 2003 budget included \$27,500,000 to address the requirements of the state's settlement in *Arnold v. Sarn* lawsuit in Maricopa County. Further, the General Appropriation Act specified that it is the intent of the Legislature that this funding be used throughout the state for all persons who meet the same criteria as those covered in the *Arnold v. Sarn* lawsuit. The General Appropriation Act also required DHS to present an expenditure plan to the Committee for its review.

The General Appropriation Act included a \$(10,000,000) General Fund offset in FY 2003. The General Appropriation Act did not specify where the \$(10,000,000) reduction in the behavioral health budget needed to be made.

DHS plans to reflect \$(8,000,000) of the offset in the Arnold v. Sarn line item, leaving \$19,500,000 to be allocated to each Regional Behavioral Health Authority (RBHA) based on a population formula. Of this amount, \$14,500,000 will be used for services for the Seriously Mentally Ill that cannot be paid for using

Title XIX funds. The sum of \$5,000,000 will be used to adjust the Title XIX capitation rate for the Seriously Mentally Ill to expand Title XIX services. DHS expects to leverage an additional \$10,021,000 in Federal Funds for these services, for a total of \$29,521,000.

The expenditure plan continues the implementation of a model developed in the 1999 report from the Human Services Research Institute (frequently referred to as the Leff Report) that was commissioned by the Department in accordance with the exit stipulation in *Arnold v. Sarn*. This model focuses on the development of residential and rehabilitative services for the seriously mentally ill, the development of treatment teams, as well as other services. DHS uses the Leff Report to guide the expansion of both its Non-Title XIX and Title XIX Services.

In regard to non-Title XIX services, DHS is planning to spend approximately 39% of the Non-Title XIX allocation on residential services. Another 15% will be spent on community based clinical treatment teams. The remainder will support a variety of services, including emergency care, hospital-based inpatient services, outpatient services, rehabilitation, including supported employment, transportation, and medication. The DHS expenditure plan also provides funding for RBHA administrative expenses at their contracted rate of 8%, or \$1,160,000. Finally, the expenditure plan provides that 4% of the RBHA's total expenses may be used as "profit". In this context, "profit" represents the excess of state reimbursement over actual operating costs. Profits are generally available for reinvestment in RBHA programs.

DHS plans to spend approximately 31% of the funding available for Title XIX services, including Federal Funds, on outpatient treatment. Another 20% will be spent on emergency services. DHS plans to spend 15% of the Title XIX funding on medications, 13% on clinical case management services, and 9% on hospital inpatient services. RBHAs may use 8% for their administrative expenses, and 5% may be used for "profit", again in accordance with the contracts.

Table 1 summarizes the DHS expenditure plan by type of service, as well as dollar allocation for both Title XIX and non-Title XIX services.

Table 1

FY 2003 Arnold v. Sarn Expenditure Plan

	Non-Title XIX Services		Title XIX Services		Total SMI Services	
	<u>Dollar Amount</u>	<u>% of Non-Title XIX Total</u>	<u>Dollars</u>	<u>% of Title XIX Total</u>	<u>Dollar Amount</u>	<u>% of Total</u>
Residential Services	\$ 5,657,400	39%	-	0%	\$ 5,657,400	19%
Clinical Case Management	2,219,800	15%	1,928,700	13%	4,148,500	14%
RBHA Admin/Risk Corridor	1,739,900	12%	1,857,100	12%	3,597,000	12%
Rehabilitation	1,258,200	9%	-	0%	1,258,200	4%
Outpatient Treatment	1,190,600	8%	4,621,400	31%	5,812,000	20%
Hospital Services	1,075,000	7%	1,285,500	9%	2,360,500	8%
Support	477,200	3%	-	0%	477,200	2%
Emergency Services	389,900	3%	3,071,300	20%	3,461,200	12%
Capital/Lease Expenses	348,000	2%	-	0%	348,000	1%
Medication	<u>144,000</u>	1%	<u>2,257,000</u>	15%	<u>2,401,000</u>	8%
Total	\$14,500,000		\$15,021,000		\$29,521,000	

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF
REPRESENTATIVES

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: June 12, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES – REVIEW OF CHILDREN’S
REHABILITATIVE SERVICES CAPITATION RATE CHANGES

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) must present a plan to the Committee for its review prior to implementing any change in the capitation rates for the Title XIX Children’s Rehabilitative Services (CRS) program. DHS has received approval from the Arizona Health Care Cost Containment System (AHCCCS) to change the capitation rates for the CRS line item effective July 1, 2002.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request, since the proposed rate changes are based upon actuarial study and do not reflect any anticipated additional cost to the General Fund in FY 2003.

Analysis

Prior to FY 2001, CRS contracted with community providers for Title XIX services on a fixed price annual basis. During FY 2000, CRS and AHCCCS developed a capitation methodology for the Title XIX component of the CRS program. Beginning in FY 2001, DHS began covering all CRS Title XIX services using per-member, per month capitation rates, which vary by provider. The rate structure also includes a high, medium, and low tier, which represent varying levels of medical acuity.

(Continued)

The following table shows the proposed rates for FY 2003.

Proposed Rate Changes for the CRS Title XIX Program				
	<u>FY 2002 Rate</u>	<u>Proposed FY 2003 Rate</u>	<u>FY 2003 % Change Above/(Below) FY 2002</u>	<u>Anticipated State Match Savings</u>
Phoenix				
High	\$473.89	\$428.44	-9.6%	(\$369,000)
Medium	278.06	259.40	-6.7%	(314,100)
Low	197.18	181.90	-7.7%	(358,800)
Tucson				
High	374.79	364.63	-2.7%	(136,300)
Medium	352.53	336.40	-4.6%	(119,300)
Low	213.27	201.37	-5.6%	(123,000)
Flagstaff				
High	299.15	293.72	-1.8%	(31,100)
Medium	179.46	174.63	-2.7%	(35,600)
Low	149.56	138.62	-7.3%	(39,100)
Yuma				
High	206.42	203.00	-1.7%	(13,900)
Medium	142.69	144.78	1.5%	(3,000)
Low	126.00	122.61	-2.7%	(13,100)
Total				(\$1,556,300)

The proposed rates for FY 2003 represent significant decreases in the rates paid to contractors in almost every acuity level in FY 2002. This decrease better reflects the actual costs per member per month incurred by program contractors.

Using population estimates used in developing the FY 2003 appropriation, these changes would represent a reduction of approximately \$(4,670,600) in Total Funds, or roughly \$(1,556,300) in state match dollars. However, because the Title XIX eligible population has also grown considerably, these capitation rate reductions are not likely to translate into significant General Fund savings.

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound, capitation rates are not set by the Legislature. DHS contracts with an actuarial firm, which uses claims and encounter data and projected enrollment to determine the actual costs of services and thereby recommends increases or decreases in capitation rates. Once DHS requests a change in rates, the new rates must be approved by AHCCCS and the federal Centers for Medicare and Medicaid Services (CMMS).

RS/GG:ck

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF
REPRESENTATIVES

LAURA KNAPERK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: June 11, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REVIEW OF LONG TERM CARE
EXPENDITURE PLAN

Request

Pursuant to a footnote in the FY 2002 Supplemental bill, the Department of Economic Security (DES) is presenting to the Committee its expenditure plan for the Long Term Care (LTC) program as a result of a decrease in LTC capitation rates.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to the attached report. The report indicates that this year's capitation rates for the LTC program in DES will decrease 5% from last year's capitation rates. The approved State Fiscal Year (SFY) 2002 budget incorporates some, but not all, of this decrease.

Analysis

DES provides services to developmentally-disabled (DD) clients eligible for the Arizona Long Term Care System (ALTCS). The Arizona Health Care Cost Containment System (AHCCCS) passes through federal funding to DES to provide ALTCS services to these DD clients. DES matches those federal funds with General Fund monies appropriated in its budget. DES receives money based on a capitation rate; that is, AHCCCS provides DES with a set amount of funds for each ALTCS client that DES serves. AHCCCS is required to set these capitation rates at actuarially sound levels.

Laws 2002, Chapter 2, 3rd Special Session, which amended DES' FY 2002 appropriation, includes the following footnote:

“Monies for the Long Term Care program are appropriated for the capitation rates effective on October 1, 2000. No monies may be expended for a change in these capitation rates unless an expenditure plan is reviewed by the Joint Legislative Budget Committee.”

(Continued)

In a December 21, 2001 letter to Tom Betlach, Governor's Office of Strategic Planning and Budgeting Director, AHCCCS recommended capitation rates for Federal Fiscal Year (FFY) 2002, which started on October 1, 2001. These rates are shown in the table below. Almost all clients served by DES in the LTC program are categorized as enrolled.

Category	FFY 2001 rate	FFY 2002 Rate	% Change
Enrolled (Non-Ventilator Dependent)	\$2,593.72	\$2,496.46	(3.75)%
Ventilator Dependent	\$8,888.35	\$8,918.71	0.34%

According to DES, which received this information via telephone conversation with AHCCCS, the decrease in the Enrolled category is allocated as follows:

Category	FFY 2001 rate	FFY 2002 Rate	% Change
Aid to Individuals	\$1,888.24	\$1,774.22	(6.04)%
Acute Care Services	339.92	339.92	0.00
Case Management Services	104.66	104.66	0.00
Administration	195.87	184.16	(5.98)
Risk/Profit	<u>37.93</u>	<u>36.04</u>	<u>(4.98)</u>
Total - DES LTC	\$2,566.62	\$2,439.00	(4.97)
Behavioral Health Services (DHS pass-through)	<u>27.10</u>	<u>57.46</u>	<u>112.03</u>
Total Enrolled Rate	\$2,593.72	\$2,496.46	(3.75)%

As can be seen in the table, DES' LTC program received a reduction of approximately 5% in its portion of the capitation rate. (The Behavioral Health Services increase has already been addressed at a previous Committee meeting.) This reduction was taken as a result of a significant surplus of nearly \$20 million in the Long Term Care System Fund at the conclusion the SFY 2001. DES expects that, with the revised capitation rate, its estimated SFY 2002 expenditures of \$383,454,600 will exceed estimated SFY 2002 capitation revenues of \$379,754,600 by \$3,700,000. DES has requested permission from AHCCCS to use the current Long Term Care System Fund balance to cover the difference. There is currently about \$10 million in the Long Term Care System Fund that can be used to address any shortfall.

Laws 2001, Chapter 2, 3rd Special Session reduced DES' budget under the assumption that DES' portion of the FFY 2002 monthly capitation rate would be reduced to \$2,496.46. This assumption was based on the December 21 letter that compared DES' recommended FFY 2002 capitation rate to DES' FFY 2001 capitation rate of \$2,566.62. That letter did not break out the different cost components of the rate, so it was not until early May that JLBC Staff discovered that DES' portion of the FFY 2002 capitation rate was actually \$2,439.00, or \$57.46 below that assumed in the 3rd Special Session budget. With the \$2,439.00 rate for FFY 2002, DES has a little more than \$2 million excess General Fund in its Long Term Care budget. DES, however, may have already used some of that excess General Fund to offset shortfalls in other areas of the budget.

JLBC Staff recommends that the Committee give a favorable review to the attached report.

RS/SSH:jb

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF
REPRESENTATIVES

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: June 11, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REVIEW OF PROPOSED
TRANSFER FROM DEVELOPMENTAL DISABILITIES PROGRAMS TO
CHILDREN SERVICES

Request

Pursuant to a footnote in the General Appropriation Act as modified by Laws 2002, Chapter 321, the Department of Economic Security (DES) requests Committee review of a proposed FY 2002 transfer of \$1,000,000 General Fund from Developmental Disabilities programs to the Children Services Special Line Item in the Division of Children, Youth and Families (DCYF).

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request to transfer \$1,000,000 from Developmental Disabilities programs in FY 2002 to the Children Services Special Line Item.

Analysis

The Developmental Disabilities cost center in DES provides 100% state-funded services to developmentally-disabled (DD) clients. The General Appropriation Act as modified by Laws 2002, Chapter 321, includes the following footnote:

“It is the intent of the Legislature that any available surplus monies for developmental disability programs be applied toward the waiting list, unless there are insufficient monies to annualize these costs in the subsequent year. The

(Continued)

children's waiting list shall receive first priority. The amount appropriated for developmental disabilities shall be used to provide for services for non-Title XIX eligible clients. The amount shall not be used for other purposes, unless a transfer of monies is reviewed by the Joint Legislative Budget Committee."

DES is requesting that the Committee review a proposed transfer of \$1,000,000 from the Developmental Disabilities cost center to the Children Services Special Line Item.

In its "25th-of-the-Month" report covering April year-to-date expenditures, DES reports that it has a surplus of \$2,000,000 in the Developmental Disabilities cost center. This surplus is in the Home and Community Based Services Special Line Item, which provides an array of day program, therapy, and residential services to state-only DD clients. DES has reported that its surplus will exist in FY 2002 only and will be used in FY 2003 to fund the provider rate increases authorized in the FY 2003 General Appropriation Act (Laws 2002, Chapter 327).

DES currently projects a FY 2002 General Fund (GF) deficit of approximately \$2.1 million in the Children Services Special Line Item. Through the end of April 2002, DES has spent approximately \$24.5 million GF of the \$31.0 million GF appropriated in the Children Services line item. It currently projects that it will require \$33.1 million by the end of FY 2002, or \$2.1 million more than its FY 2002 appropriation. The \$1,000,000 transfer from the Developmental Disabilities would address about half of the projected deficit.

It is difficult to project year-end Children Services spending by fund source because many of the administrative adjustments after the close of the fiscal year dramatically change the fund sourcing for the line item. Based on monthly year-to-date FY 2002 General Fund expenditures, however, JLBC Staff believes DES projections for final FY 2002 expenditures are not unreasonable.

Based on the projected surplus in Developmental Disabilities and the projected deficit in Children Services, JLBC Staff recommends a favorable review of the request to transfer \$1,000,000 from Developmental Disabilities programs in FY 2002 to the Children Services Special Line Item. The surplus monies in the Developmental Disabilities programs are one-time in FY 2002 and will not be available in FY 2003.

RS/SSH:jb

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF
REPRESENTATIVES

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: June 12, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REPORT ON PROPOSED USE
OF TANF CASH BENEFITS EXPENDITURE AUTHORITY

Request

Pursuant to a footnote in the General Appropriation Act as modified by Laws 2002, Chapter 321, the Department of Economic Security (DES) is reporting on its intent to use up to \$1,000,000 federal Temporary Assistance for Needy Families (TANF) Block Grant monies of the \$4,200,000 appropriated as expenditure authority to pay TANF Cash Benefits in FY 2002.

Recommendation

This agenda item is for information only and no Committee action is required.

Analysis

The General Appropriation Act as modified by Laws 2002, Chapter 321 contains the following footnote regarding the TANF Cash Benefits Special Line Item in the Division of Benefits and Medical Eligibility (DBME):

“Of the amount appropriated for Temporary Assistance for Needy Families Cash Benefits, \$4,200,000 reflects appropriation authority only. The department shall notify the Joint Legislative Budget Committee and the Governor’s Office of Strategic Planning and Budgeting Staff before the use of any of the \$4,200,000 appropriation authority.”

(Continued)

The TANF Cash Benefits line item contains this additional expenditure authority because the state pays TANF benefits on behalf of the state's five Native American tribes that operate their own welfare programs. The tribes repay the state for the benefits, but because there can be a delay between the time the benefits are paid out and the time the tribes repay the state, the Legislature appropriated \$4,200,000 for expenditure authority. The footnote permits DES to expend these monies if notifies JLBC and OSPB Staff beforehand. Any expenditures that the department makes from this amount actually reduces the amount of TANF carry-forward balance available to the state.

DES is reporting its intent to spend up to \$1,000,000 of its expenditure authority in FY 2002 for benefits to non-tribal members. DES also notes, however, that current expenditure levels are very close to the appropriated level and it may not need to spend any of the \$1,000,000. Its best estimate is that FY 2002 expenditures will be approximately \$70,000 less than the FY 2002 appropriation (excluding the expenditure authority) and it will not need to use any of the expenditure authority.

RS/SSH:jb

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF
REPRESENTATIVES

LAURA KNAPERK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: June 11, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - UPDATE ON DOMESTIC
VIOLENCE BASELINE COST-EFFECTIVENESS MEASURES

Request

Pursuant to a request made by the Committee at its October 19, 2000 meeting, the Department of Economic Security (DES) is presenting progress made on developing outcome measures for domestic violence programs.

Recommendation

This item is for information only and no Committee action is required. JLBC Staff recommends that DES update the Appropriations Committees on this issue during next year's budget hearings.

Analysis

Laws 2000, Chapter 122 required that DES report to the Governor and the Legislature baseline cost-effectiveness information. When DES submitted its report, it was still in the initial stages of collecting expenditure data and needed time to evaluate and plan cost-effective usage of the data. It was also in the process of obtaining input from other state agencies and interested stakeholders on the outcome measures. As a result, at its October 19, 2000 meeting the Committee asked DES to report to the Committee after receiving this input, around 12 to 18 months.

The report details the efforts of DES' Community Services Administration (CSA) in developing outcome measures. Due to size restrictions, we have not attached a copy of the report; copies are available from our office upon request. It summarizes progress made on three levels — local, state, and national.

(Continued)

Local

In 1998, the Sojourner Center, one of DES' domestic violence program contractors, asked CSA to help them develop an "outcome evaluation system." Sojourner Center developed a "Need for Service Assessment Scale," which is used to establish the need for service in 15 areas. Sojourner periodically measures changes in need to show an increase or decrease in client improvement on the scale. DES' report says the next step is to attribute cost to activities, which will assist Sojourner in allocating resources to the most beneficial activities. Sojourner has trained a total of eight domestic violence-related organizations on their system. CSA will monitor the use of this system by other shelters to determine if this is an effective system to implement statewide in the next Request for Proposals (RFP) for domestic violence services.

Statewide

Since July 1, 2000, CSA's domestic violence contractors have submitted quarterly outcome measure data. Each contractor was required to develop at least 4 outcomes that quantifiably measured performance of emergency shelter and transitional housing services. Measures were mostly evenly split between "quality of life" measures (e.g., the percent of clients whose knowledge of domestic violence has improved) and "output" measures (e.g., number of social service referrals). DES plans to incorporate standard statewide outcome measures into its RFP for emergency shelter services starting in FY 2004.

CSA also continues to participate in the State Agency Coordination Team (SACT). SACT consists of representatives of seven state agencies that provide funding to domestic violence programs. SACT is working to determine common outcomes to be used in RFPs.

National

CSA staff has also participated in a national project funded by the federal Department of Health and Human Services to develop definitions, goals and objectives, and measures.

The report notes other important issues related to domestic violence outcomes. National research emphasizes the importance of distinguishing between "short-term" and "long-term" outcomes for domestic violence programs. National research also highlights some of the challenges in collecting outcome measure data, including victims' occasional anonymity, outcomes that cannot be measured systematically, and outcomes requiring too long of a time horizon.

As noted above, CSA plans to refine current outcome data and incorporate standard outcome measures into solicitations and contracts starting in FY 2004. CSA will conduct another statewide meeting of stakeholders by the end of FY 2003 to gather final input on outcome measures.

JLBC Staff recommends that DES update the Appropriations Committees on this issue during next year's budget hearings.

RS/SSH:jb

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF
REPRESENTATIVES

LAURA KNAPERK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: June 12, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Timothy Sweeney, Fiscal Analyst

SUBJECT: ARIZONA STATE RETIREMENT SYSTEM – REVIEW OF FY 2003
INFORMATION TECHNOLOGY EXPENDITURE PLAN

Request

The Arizona State Retirement System (ASRS) requests Committee review of the FY 2003 Information Technology (IT) Expenditure Plan for FY 2003. ASRS was appropriated \$9,000,000 in each FY 2002 and FY 2003 to upgrade their current information technology. A General Appropriation Act footnote requires ASRS to seek JLBC review of each year's expenditure plan. A favorable review was granted by JLBC last May for the FY 2002 expenditure plan.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the FY 2003 expenditure plan submitted for the agency's IT plan. The plan fully converts the IT system to the Oracle environment to enhance efficiencies and services, as well as accommodate increases in membership.

Analysis

The footnote requiring JLBC review of the expenditure plans was added to the General Appropriation Act because of the magnitude and importance of the IT Plan for the agency, and due to the fact that the IT Plan did not receive approval from the Information Technology Authorization Committee (ITAC) until after the original FY 2002 – FY 2003 budget

(Continued)

development process. At the January 2001 ITAC meeting the project was approved; however, the agency is required to submit their Project Investment Justification (PIJ) to ITAC for further approval if the technology, scope of work, or implementation schedule varies from the original PIJ document.

The ASRS IT Plan is meant to address IT inefficiencies that currently exist and to position the agency for the anticipated increases in the longevity of retirees and actual number of retirees as the "baby boomer" generation reaches retirement. An additional component of the IT Plan is designed to improve the ASRS Web site. Instead of being only an information resource, the agency plans to create a Web site that provides services to members. For example, the enhanced ASRS Web site will enable members to complete tasks such as viewing their pension payment history, scheduling appointments with retirement advisors, and use an on-line benefit estimate calculator. Finally, the IT Plan includes upgrades for the agency's telecommunications system, which is the primary point of contact for ASRS members.

Implementation of the IT Plan began in FY 2002. Progress is mostly on schedule, though there was a delay in some programming work due to legislation from the 2001 Legislative Session. These other programming needs have delayed the overall progress in FY 2002, but have not altered the timeline of duties expected to be completed by the end of FY 2003. According to GITA, the plan is proceeding according to schedule, and no significant changes to the original PIJ are occurring.

The IT Plan is addressing inefficiencies due to the use of both an Oracle environment and an older COBOL environment. An Oracle environment is considered more flexible than a COBOL environment and allows the agency to make modifications and updates to the system in a more timely manner than is possible in a COBOL environment. In addition, conversion of all IT systems to Oracle will eliminate data redundancy, increase data integrity, streamline operational processing, and allow the agency to collect additional information that will enhance the service provided to ASRS members. The functions that have already been converted to Oracle are: 1) contact tracking; 2) member demographics; 3) employer demographics; 4) contribution reporting; 5) accounts receivable ledger; and, 6) health insurance. The functions that will be converted with the funding provided are: 1) member statements; 2) service purchase cost letters; 3) fiscal year-end processing; 4) calendar year-end processing; 5) forfeitures; 6) 13th month check distributing investment earnings; 7) contribution posting; 8) pension payroll; 9) benefit estimates; 10) new retiree processing; 11) survivor benefits for retired and non-retired members; and, 12) determination of payment of excess benefits.

The real impetus for the changes proposed in the IT Plan is the projected increase in the longevity of retirees and the anticipated increase in the actual number of retirees as the "baby boomer" generation reaches retirement. For example, ASRS currently has approximately 59,000 retirees; however, the agency anticipates the number of retirees to increase to approximately 98,000 by 2010. The agency estimates that if the IT Plan were not implemented the agency would need, at a minimum, 110 FTE Positions to achieve efficiencies somewhat similar to what will be achieved from completing the IT Plan. Without the IT Plan, many processes would remain manual and less efficient. For example, with the current manual process an estimate of retirement benefits takes staff approximately 40 minutes to complete. However, with the automation efficiencies introduced by the IT Plan, the same retirement benefit estimate would take staff approximately 10 minutes.

(Continued)

ASRS has submitted an expenditure plan for the \$9,000,000 allocated in FY 2003 for the IT Plan, which includes 14 FTE Positions. These expenditures are in line with the cost estimates included in the PIJ, which were determined reasonable by GITA and ITAC as part of their approval process. The table below details the components of the \$9,000,000 allocated in FY 2003.

ASRS IT PLAN		
	<u>FY 2002</u>	<u>Proposed FY 2003</u>
FTE Positions	12	14
Personal Services & ERE	\$ 798,600	\$1,103,800
Professional & Outside Services	4,253,000	6,682,700
Travel	10,400	10,500
Other Operating Expenditures	407,900	735,500
Equipment	<u>3,530,100</u>	<u>467,500</u>
Total	\$9,000,000	\$9,000,000

Current senior ASRS staff from each service area are assigned to the IT Plan to ensure that the programming in the new Oracle environment fully meets the agency's operational and customer needs. Because consultants are performing much of the business application development in Oracle, in-house IT staff assigned to the IT Plan will enhance the knowledge transfer process from the consultants, which will reduce the risks associated with maintaining the Oracle system. The ASRS IT Plan includes approximately 27 consultants that will provide expertise in building business applications using Oracle, and therefore, will help ensure that the Oracle applications are completed in a timely manner. In addition to hiring additional in-house and consulting staff, the FY 2003 IT Expenditure Plan includes the continuation of consultants and FTE Positions from FY 2002. Much of the necessary equipment was purchased in FY 2002, thus the expected amount used for equipment in FY 2003 is significantly lower. ASRS will continue to purchase equipment for telephone and network enhancements, and will be purchasing maintenance contracts for current and past equipment purchases. Finally, several internal planning tasks need to be continued from FY 2002 or begin in FY 2003 such as finalizing PERIS projects, reengineering and automated workflow analysis, and telephone system and network enhancements.

The FY 2003 expenditure plan for the ASRS IT Plan is consistent with the expenditures outlined in the PIJ document approved by ITAC, and therefore, the JLBC recommends a favorable review.

RS/TS:ag

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF
REPRESENTATIVES

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: June 12, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Paul Shannon, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION/GOVERNMENT
INFORMATION TECHNOLOGY AGENCY - REPORT ON HRMS REPLACEMENT
PROJECT

Request

As part of the favorable review of the expenditure plan for the Human Resources/Payroll System, the Arizona Department of Administration (ADOA) and the Government Information Technology Agency (GITA) are required to report back quarterly to provide information on the project.

Recommendation

This item is for information only and no Committee action is required. Workshops to define the process and begin design have been completed and agency staff have been selected to provide training to agency employees.

GITA submitted its quarterly report to the Committee on April 24, 2002 and noted that the significant scope of the project, the aggressive timeline, and the amount of inter-agency cooperation required in the project are areas for concern. Since receipt of that GITA report, the Human Resources Information Solution Board of Directors delayed the implementation date for the first phase of the project until April 14, 2003. Further recent communication from GITA to ADOA raises questions about how this deviation from the original plan will affect the budget of the project. GITA noted equipment issues at other agencies that have resulted from the project and specifically requested a contingency plan from the project managers should the new

(Continued)

implementation dates also prove unachievable. GITA also requests several other updates on the project status.

In light of these new developments, JLBC Staff recommends that both ADOA and GITA provide updates on an as-needed basis if the quarterly schedule would not provide timely information to the Committee.

Analysis

The replacement Human Resources/Payroll System is commonly known as the Human Resources Information Solution (HRIS). The project officially began after contracts were signed in January 2002 and project teams were assembled.

Funding for the project is provided through a pro-rata assessment on Personal Services. Of the \$80.2 million in project costs, \$44.3 million are costs associated with the lease-purchase of the system. This lease-purchase arrangement has a period of 12 years.

The system hardware and software are supplied by a partnership between IBM and Lawson Software. Hardware and software installation was conducted in February 2002. The project team has also conducted a number of workshops during February and the following months to gather information on the current human resources business process (“as-is” workshops) and to design the desired configuration for the implemented business process (“to-be” workshops).

The HRIS Board of Directors met on June 5, 2002 and determined that the implementation date for the project would be moved to April 14, 2003. The Board decided that the original implementation date of January 1, 2003 could not be met due to concerns about agency readiness. In the original project planning, the January date was a target because the current system would not be supported by a critical vendor after December 31, 2002. That vendor has agreed to provide support for their system past December 31st, so the current system will be fully supported during the delay.

RS:PS:ss

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF
REPRESENTATIVES

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: June 11, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Paul Shannon, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION/GOVERNMENT
INFORMATION TECHNOLOGY AGENCY – REPORT ON HRMS
REPLACEMENT PROJECT AGENCY BUDGET SAVINGS

Request

As part of the review of the expenditure plan for the replacement of the Human Resources/Payroll System, the Committee required the Arizona Department of Administration (ADOA) and the Government Information Technology Agency (GITA) to report by February 15, 2002 on agency budget reductions from the implementation of the new system.

Recommendation

This item is for information only and no Committee action is required. The report summarizes an average of \$1,350,000 per year in “hard” savings and \$7,999,000 per year in “soft” savings during the 12-year life of the project. While the hard savings appear possible, the soft estimate is questionable, as explained below. The JLBC Staff does recommend that a follow-up report be submitted by ADOA and GITA by January 31, 2003.

Analysis

The JLBC Staff received a report from ADOA of potential budget reductions. This report provides total savings from the project of \$14,849,100 in “hard” savings over the 12-year life of the project and \$87,989,200 in “soft” savings over the 12-year life of the project. “Soft” savings are defined as cost avoidance.

(Continued)

The “hard” savings include the elimination of 1 FTE Position associated with direct deposit and 23.4 FTE Positions associated with activities associated with Resumix hiring software. There will also be savings of \$2,216,300 for consultant costs and \$80,200 in reductions in staff time to manually process checks of over the 12-year life of the project.

Other “soft” savings, in the form of costs that are avoided due to the implementation of the Human Resources Information Solution (HRIS) System include savings in data entry over 12 years of \$48,769,400. An estimated \$39,219,800 in savings from reduced turnover is expected over 12 years. Turnover savings are assumed to result from a 0.5% reduction in turnover due to increased satisfaction with personnel management. The JLBC Staff experience is that turnover has many causes, so Staff assumes it will be difficult to demonstrate that any reduction in turnover was the result of a more responsive payroll system.

Since the project will not be fully implemented until April 14, 2003, it should be assumed that the hard savings of the project would not be realized until, at the earliest, the 4th quarter of FY 2003.

The HRIS project continues to identify agency processes that will be more efficient with the new system. Hard dollar savings are expected from the redundancy of existing time and attendance systems that many agencies currently use. ADOA reports that these savings will be identified in FY 2003.

RS/PS/ss

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF
REPRESENTATIVES

LAURA KNAPERREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: June 6, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: DEPARTMENT OF TRANSPORTATION – REPORT ON GRAND CANYON
AIRPORT FUNDING

Request

The Arizona Department of Transportation (ADOT) requests that the Committee release \$161,500 (the final 3 months) of the FY 2002 appropriation to operate the Grand Canyon Airport for the remainder of FY 2002. Due to time constraints, this issue was not considered at the May JLBC meeting.

Recommendation

The JLBC Staff recommends the release of \$161,500 to operate the Grand Canyon Airport for the final 3 months in FY 2002. The total appropriation is \$646,100 for FY 2002. A General Appropriation Act footnote requires that no more than \$53,800 may be made available to ADOT in any month.

Analysis

The ownership and management of the Grand Canyon Airport was transferred from ADOT to the then newly established Grand Canyon Airport Authority on October 1, 1999, in accordance with Laws 1999, Chapter 213. The Authority was envisioned as having more local control, more freedom from the state bureaucracy, and with the ability to borrow funds for capital needs. However, ADOT subsequently determined that the Authority was a semi-autonomous state entity, instead of an independent municipal corporation, which still had to use the state accounting system, personnel system, and administrative rule making process. To remedy these shortcomings, Laws 2000, Chapter 99 was enacted. Chapter 99 eliminated the Grand Canyon Airport Authority, reverted any unexpended and unencumbered monies previously appropriated to the Authority to the State Aviation Fund, and returned the operation of the Grand Canyon National Park Airport to ADOT, effective July 18, 2000. ADOT had to lease the airport to a nonprofit corporation, to operate and develop the airport as provided in the lease.

(Continued)

In addition, Laws 2000, Chapter 99 requires ADOT to submit the lease to the Joint Legislative Budget Committee for review at least 30 days before they intend to execute the lease. ADOT may not execute the lease until the Joint Legislative Budget Committee reviews the lease and submits a report summarizing the terms of the lease to the Speaker of the House of Representatives and the President of the Senate, which shall be within 30 days after receipt of the lease. The Committee gave a favorable review of ADOT's proposed lease at its January 9, 2002 meeting, with the provision that the final lease includes specified technical amendments. ADOT had expected to sign the proposed lease sometime later in January 2002. This has still not occurred since the potential lessee still has unresolved issues including reduced Airport revenues since the 9/11/01 tragedy, liability concerns regarding a lawsuit by the Airport's fixed base operator, and questions whether the lessee can be directly given federal grants. ADOT now expects to continue running the Airport for the indefinite future, with no specific timeframe for if or when a lease might be consummated.

The General Appropriation Act included a \$646,100 appropriation, as adjusted for statewide salary and other allocations, to ADOT in FY 2002 for the operation of the Grand Canyon Airport. A General Appropriation Act footnote required that before the expenditure of any of this money for the Grand Canyon Airport, the department had to report to the Joint Legislative Budget Committee on the status and projected date of the privatization of the airport. The footnote further provides that no more than one-twelfth of the \$646,100 may be made available to ADOT in any month. At its January 9, 2002 meeting the Committee concurred with ADOT's request to release \$161,500 for 3 months of funding in FY 2002 to operate the Grand Canyon Airport through March 31, 2002. This made \$484,600 released for the first 9 months of FY 2002, and left another \$161,500 of the total appropriation of \$646,100 available for the last 3 months of FY 2002, if needed.

RS/BH:jb

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF
REPRESENTATIVES

LAURA KNAPERREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: June 12, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

FROM: Richard Stavneak, Director

SUBJECT: REPORT ON RECENT AGENCY SUBMISSIONS

Request

The JLBC has received a number of statutorily required reports during the past month. Each report is briefly described below.

Recommendation

The reports are for information only and no Committee action is required. We do not intend to discuss the reports at the JLBC meeting unless a member has a question. If any member knows in advance that they will have questions, we would appreciate knowing that before the meeting so as to ensure the relevant agency is available.

Reports

A. Arizona State Schools for the Deaf and the Blind (ASDB)- Report on Intended Use of Classification Salary Adjustment Monies.

A General Appropriation Act footnote requires ASDB to report the intended use of budgeted monies for Classification Salary Adjustments prior to the expenditure of those monies in FY 2002. The bill increased ASDB's FY 2002 voucher fund appropriation \$94,800 above the FY 2001 amount for Classification Salary Adjustments to ease hiring in hard-to-fill job categories. ASDB has selected the following job categories for the use of the additional funds:

Nurse (6 FTE)	\$ 7,000
Payroll (6 FTE)	8,000
Supervising Teacher (30 FTE)	44,000
Custodial Worker (15 FTE)	11,900
Extracurricular Activities (30 Positions)	6,500
Master Teaching Parent/On-Call (38 Weekends)	<u>2,600</u>
TOTAL	\$ 80,000

B. Department of Emergency and Military Affairs - Report on Declared Emergencies.

State Land Department Fire Suppression Fund

Pursuant to A.R.S. § 26-303, the Governor declared a State of Emergency effective April 2, 2002 through July 31, 2002 due to a severe forest and grassland fire emergency. Pursuant to A.R.S. § 37-623, the Governor authorized the State Forester to spend \$1,000,000 from the General Fund to pre-position fire fighting resources for the suppression of wild land fires on state and private lands located outside incorporated municipalities. Arizona is experiencing extreme drought conditions which create a higher than normal danger of wildfires. The funds will pay for firefighters, airplanes, retardant-dropping air tankers and training for Department of Public Safety and National Guard personnel.

Under A.R.S. § 37-623.02, the Governor may authorize the State Forester to spend \$1,000,000 from the State Land Department's Fire Suppression Fund to prepare for periods of extreme fire danger and pre-position equipment and other fire suppression resources to provide for enhanced initial attack on wild land fires.

Governor's Emergency Fund

Pursuant to A.R.S. § 26-303, the Governor declared a State of Emergency effective May 15, 2002 due to the Indian Fire near Prescott in Yavapai County. Pursuant to A.R.S. § 35-192, the Governor directed that \$200,000 from the Governor's Emergency Fund be made available for expenditure by the Director of the State Division of Emergency Management. The Indian Fire burned homes and forested land near the City of Prescott in the Prescott National Forest.

Under A.R.S. § 35-192, the Governor is authorized to approve the expenditure of \$200,000 or less for any single disaster, emergency or contingency. Authorization of larger expenditures cannot be made without consent of a majority of the members of the State Emergency Council. The total amount of all expenditures for States of Emergency cannot exceed \$4,000,000 for any fiscal year. The Gila Bend/Ajo Storm Emergency (PCA 22001) and Airport Security Emergency (PCA 22003) closed in April 2002 and reverted \$277,000 to the General Fund. There have been twelve emergency declarations, amendments or other actions in FY 2002, with total authorized expenditures of \$3,898,000 from the General Fund.

RS:lm